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Increasing Soviet Potential for Undermining Finnish Stability:

The Soviet potential for disrupting the Finnish economy and hence the country's stability has seriously increased. For many months Finland's economic situation has been deteriorating. This has been accompanied by/^amarked increase in Finnish trade with the orbit to the extent that the USSR has become Finland's principal market.

Finland's economic situation has deteriorated as a result of the lagging world market for its traditional exports of wood products. High production costs have also made it difficult for Finnish goods to compete in Western markets.

These developments have forced Finland to increase markedly its trade with the Soviet bloc. As a result the orbit this year is expected to receive 34 percent of Finland's exports compared to 23 percent in 1952 and 16 percent from 1947 through 1951.

The USSR has not yet attempted to exploit the favorable

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economic position it has obtained. It could, however, create a serious economic and political crisis in Finland at any time by exerting economic pressure. This could take the form of a threat to cancel its trade agreements, a refusal to accept Finnish goods, or failure to make agreed deliveries.

Any solution to the problem is complicated by several factors. Under existing trade agreements Finland is committed to maintain approximately its 1953 volume of trade with the orbit through 1955. The delicate balance of Soviet-Finnish relations have militated against any American remedial steps which might result in strong Soviet countermeasures affecting Finnish stability. Finally, Finnish political parties have been unable to agree on any practical solution to the country's economic problems. These differences have provoked the continuing parliamentary crisis.

Since last October an American inter-agency working group has been studying the Finnish economic situation. It particularly examined the possibility of increasing US purchases

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of Finnish products as a means of reducing Finland's economic dependence on the bloc. This group, however, has recently concluded that this approach cannot possibly yield results commensurate with the size and seriousness of the problem. Even if the US undertook to purchase all of Finland's exports to the bloc, which will total approximately 200 million dollars during 1953, the program would probably be unfeasible because of Finland's sensitivity regarding its relations with the USSR.

On the other hand, the loss of Finland to the USSR through economic absorption would not only have a profound shock on the American public, but would also adversely affect the Western strategic position in Scandinavia.